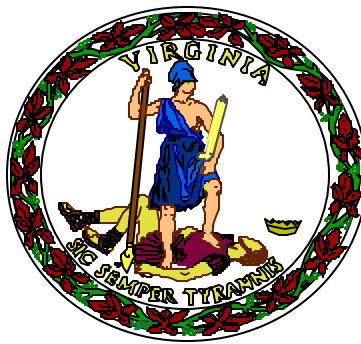


Financial Management Standards Guide For Community Service Boards

Third Edition



**James S. Reinhard, M.D.
Commissioner
Revised July 2002**

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Virginia Department of Mental Health, Mental Retardation
and Substance Abuse Services
Division of Financial Administration
Office of Financial Reporting and Compliance
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Preface

This revised guide is designed to be used by Community Services Boards as a tool in financial management and as a mechanism to communicate the financial policies set forth by the State Board and the Department of Mental Health, Mental Retardation and Substance Abuse Services. The revised guide is designed to provide direction in a user-friendly format. It supercedes *Financial Management Standards for Community Services Boards (July, 1994)*.

This third edition of the *Financial Management Standards for Community Services Boards* has been revised to reflect current accounting changes and suggestions. Several changes (including additional and revised information) have been made to specific chapters as considered applicable. These changes are noted in the *Record of Changes* section beginning on Page 5. One major change to note is in reference to the *CSB Audit Guide*, which will no longer be issued separately. Relevant information in reference to the audit guide has been incorporated into Chapter 9, *Audit Requirements for CSBs and Contract Agencies*, of this guide. The entire contents of this guide are posted on the Department's website at **www.dmhmrzas.state.va.us**.

The Office of Financial Reporting and Compliance (OFRC) will make revisions as they occur. Finance directors of CSBs and CSB Contract Agencies, will be notified via e-mail when changes occur. Affected Table of Contents and Appendices will also be revised as necessary. All changes, revisions, and updates will be posted on the Department's website at **www.dmhmrzas.state.va.us**.

The Department, through the State Board, has statutory authority to promulgate fiscal standards that ensure appropriate spending, recording, and reporting of revenues that it passes to the CSBs. As such, the Department has oversight responsibility for the management of state and federal funds passed on to CSBs. (Refer to the section, *Statutes and State Board Policies*, in Chapter 1, *General Information*). The Department's role is to promote sound financial management.

The intent of this guide is not to duplicate information presented in other CSB publications. Where applicable, this guide will refer users to other sources for useful information, including the Commonwealth of Virginia, federal, and other web sites. A general listing for various web sites and other additional information is shown in the back of the guide. The users of this guide should have current and up-to-date information at their disposal. By referencing information at various web sites, users can be reasonably sure that such information is the most current available. Users are also encouraged to contact the Office of Financial Reporting and Compliance whenever assistance is required.

References to "policy" in this guide do not refer exclusively to State Board policy. Readers should be aware that policy exists at many levels and "policy" as it appears in this guide must be assessed within the context of the reference in which it appears.

Acknowledgement

The Office of Financial Reporting and Compliance (OFRC) is appreciative of all the individuals who provided comments and suggestions in the development of this document. We encourage continuous feedback and input so that the next edition can be improved even further. Readers and users of this guide may forward their comments and suggestions to us as noted below.

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**Record of Changes:
1994 Guide vs. Revised Guide**

- Chapter 1: *Introduction to the Guide:* This chapter was discontinued in the revised edition. Introductory information is now included in the *Preface*. Other information is included in various chapters as applicable. Chapter 1 in this revised guide is now titled *General Information*. This chapter will contain information of a general and miscellaneous nature. Information that does not compliment specific subject matter in a particular chapter will be in this chapter.
- Chapter 2: *Budgeting and Funding Cycle:* The title did not change from the 1994 edition. However, this chapter has been completely revised.
- Chapter 3: *Responsibilities for Financial Management:* The title did not change from the 1994 edition. However, additional and/or revised information have been added.
- Chapter 4: *Internal Control & Fraud Reporting:* The title changed from the 1994 edition to (*Internal Control, Fraud Reporting, and Financial Review Process*). Additional and/or revised information have been added.
- Chapter 5: *Accounting Standards:* This chapter was discontinued. However, relevant sections have been maintained in this revised edition as part of various chapters. Refer to the subject index by desired topic for additional information.
- Chapter 6: *Federal Grants Management:* The title did not change from the 1994 edition. However, additional and/or revised information have been added.
- Chapter 7: *Fixed Asset Management:* The title did not change from the 1994 edition. However, additional and/or revised information have been added.
- Chapter 8: *Cash Management:* The title did not change from the 1994 edition. However, additional and/or revised information have been added.
- Chapter 9: *Audit Requirements for CSBs and Contract Agencies:* The title did not change from the 1994 edition. However, additional and/or revised information have been added.
- Chapter 10: *Contract Agencies:* The title did not change from the 1994 edition. However, additional and/or revised information have been added.
- Chapter 11: *Recognition for Effective Financial Management:* This information has been discontinued. Chapter 11 is now titled *Tax Considerations* in this current edition.

- Chapter 12: *Financial Review Process:* The financial review process is included in Chapter 4 of this edition. Chapter 12 is now titled *Cost Saving Opportunities*.
- Appendix A: *Technical Bulletins:* This information is included in Chapter 1 of this revised edition.
- Appendix B: *Code of Virginia:* This information is included in Chapter 1 section, *Code Reference for CSBs*.
- Appendix C: *State Board Policies:* This information is included in Chapter 1 section, *Policy References*.
- Appendix D: *Internal Control Questionnaire:* This appendix was discontinued.
- Appendix E: *Procedures for Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles (GAAP):* This appendix was discontinued.
- Appendix F: *Model Fund Accounting General Ledger System:* This appendix was discontinued.
- Appendix G: *Application of Cost Accounting to CSBs:* This appendix was discontinued.
- Appendix H: *Applications for Activity Based Costing:* This appendix was discontinued.
- Appendix I: *Grant Restrictions and Management:* This appendix was discontinued.
- Appendix J: *Record Retention and Disposal:* This information is included in Chapter 1 section, *Records Management*.
- Appendix K: *IRS Form 1099 Requirements:* This appendix was discontinued.
- Appendix L: *Prompt Payment Compliance:* This appendix was discontinued.
- Appendix M: *Unclaimed Property Act Compliance:* This information is included in Chapter 1 section, *Unclaimed Property*.
- Appendix N: *Sample Fiscal Officer's Work Plan:* This appendix was discontinued.
- Appendix O: *Model Request for Proposal - Audit Services:* This appendix was discontinued. Refer to Chapter 1 section, *Technical Bulletins*.

- Appendix P: Cost Allocation Model: This appendix was discontinued. Refer to Chapter 5 section, *Uniform Cost Reporting Model*.
- Appendix Q: OMB Circulars A-128 and A-133: This appendix was discontinued.
- Appendix R: Core Services Taxonomy V: This appendix was discontinued. Refer to Chapter 5 section, *Uniform Cost Reporting Model*.
- Appendix S: Table of Contents of Other CSB Related Manuals: This appendix was discontinued.

Other Changes

A subject index is included in the back of the revised edition and should be referenced for additional information. We have also added a list of web site addresses for easy reference.

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DMHMRSAS Office Functions

Introduction This section presents the missions and functions of offices of the Department that regularly assist CSBs on an administrative basis. Descriptions of various offices are shown below.

Budget Office

Overall Mission The Budget Office's overall mission is the development, execution, and implementation of the Department's budget in compliance with state and federal requirements.

CSB-related Functions This office assists CSBs in these areas:

- Develops general fund budgetary amounts to be included in the Letter of Notification
- Monitors general assembly legislative actions affecting CSB budgets
- Develops and maintains the CSB fund tracking and forecasting system for the Community Medicaid MR Waiver program

Department-related Functions This office performs the following Department-related functions:

- Monitors the Department's budget against actual revenues and expenditures
- Manages cash flow for the Department, as a whole, including facilities
- Projects revenue collections annually and for future periods in conjunction with the Reimbursement Office
- Develops and monitors the DMHMRSAS biennium budget

Office of Grants Management

Overall Mission Grants Management's overall mission is to provide financial management services to:

- DMHMRSAS Central Office
- CSBs

CSB-related Functions This office assists CSBs in these areas:

- Prepares and sends Letters of Notification with narrative from Office of Community Contracting
- Monitors and funds CSB allocations of state and federal funds as specified on warrants

- Makes funding adjustments for medicaid match changes
- Prepares semi-monthly payments of funding allocations to each CSB
- Develops and approves performance reports, performance contracts and revisions (fiscal portion)
- Provides technical assistance to CSBs in matters concerning quarterly report preparation and performance contract preparation and other fiscal matters
- Monitors compliance with grant restrictions
- Develops and monitors federal funds budgets
- Prepares the Central Office Schedule of Expenditures of Federal Awards

Financial Services Office

Overall Mission

The Financial Services Office's overall mission is to provide financial management services to the Central Office.

Department-related Functions

This office performs the following department-related functions:

- Fixed asset management
- Reconciliation of the Department's Financial Management System (FMS) with the Commonwealth's Accounting and Reporting System (CARS)
- Payment of all Central Office related accounts payable vouchers
- Payroll processing for Central Office staff

Office of Financial Reporting and Compliance

Overall Mission

The Office of Financial Reporting and Compliance's overall mission is to provide:

- Technical assistance to CSBs and facilities in the areas of financial systems, financial management, and financial reporting
- Departmental financial reporting, periodically and annually
- Ensure compliance with federal and state audit requirements
- Develop and maintain financial management policy direction for CSBs, facilities, and Central Office
- Issuance and maintenance of *Financial Management Standards Guide for CSBs*

Department-related Functions

In order to fulfill its mission, the office:

- Provides facilities and Central Office with direction and support for the utilization and operation of the statewide Financial Management System.
- Prepares agency financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and consolidate all Department of Accounts (DOA) financial reporting requirements, which included the development of an annual financial report.
- Performs sub-recipient monitoring of federal funds, via the performance of routine CSB financial reviews.
- Develops guidelines for CSB and contract agency audits and reviews and monitors audits and plans of correction for the 40 CSBs and their related contract programs.
- Coordinates and monitors the plan of correction for the Central Office and 15 State Facilities as developed in response to the audits performed by the State Auditor of Public Accounts (APA).
- Produces monthly consolidated financial statements and reports for senior management and staff.
- Develops and maintains financial policy for the facility and CSB system. This includes the following key areas:
 1. GAAP basis financial reporting
 2. Internal control methods
 3. Cost accounting
 4. Automated financial management systems
 5. State and federal compliance

Office of Reimbursement and Cost Accounting

Overall Mission

The Reimbursement Office's overall mission is the identification and collection of all charges due to the Department for the delivery of service.

CSB-related Functions

This office assists CSBs in such areas as:

- Issuance and maintenance of the *Reimbursement Policies and Procedures for CSBs* manual
- Periodic reimbursement reviews resulting in recommendations for improvements in collection management
- Technical assistance to CSBs in matters concerning the debt set-off

program, provider policies and procedures and collection management

Department-related Functions

This office performs the following Department-related functions:

- Centralized accounts receivable management and collection relative to DMHMRSAS operated facilities
- Technical assistance to the facilities in the areas of the debt set-off program, provider policies and procedures, collection management, and the Federal Benefit Deposit System
- Issuance of policies and procedures guidance to the facilities
- Serves as primary liaison to the Va. Department of Medical Assistance and Department of Social Services, Medicare, intermediaries, patient payors and federal benefit agencies
- Preparation of annual medicare and medicaid cost reports for state facilities
- Establishment of change rates for facility services

Administrative Services Office

Overall Mission

The Administrative Services Office's overall mission is the provision of administrative support services, procurement and contracting services, and the development of departmental instructions and policy.

CSB-related Functions

This office assists CSBs in the following areas:

- Issuance and maintenance of *CSB Procurement Procedures Manual*
- Procurement training
- Technical assistance to CSBs in the following areas:
 - Procurement and contracting
 - Insurance and risk management
 - General administrative processes

Department-related Functions

This office performs the following Department-related functions:

- Technical and direct assistance to facilities and central office personnel in the areas of general services, administration, contracting and procurement
- Procurement dispute resolution
- Minority business development
- Facilitate cooperative or group purchases of goods and services
- Real property management

- Travel, transportation and insurance
- Prepare regulations, departmental instructions, and maintain the *Standard Administrative Practices and Procedures Manual* and other policy and procedural documents

Human Resources Offices - CSB Services Section

Overall Mission

The Human Resources CSB Services Section's overall mission is technical assistance to CSBs in human resource management to promote compliance with federal and state laws.

CSB-related Functions

This section of the Human Resources Office assists CSBs in such areas as:

- Issuance and maintenance of policies and procedures guidance
- Equal employment opportunity and affirmative action compliance
- Human resource management issues such as:
 - Classification and compensation
 - Recruitment and selection
 - Benefits administration
 - Employee relations, evaluations, and grievance procedures
 - Training programs

Community Services Administration Office

Overall Mission

The Community Services Administration Office's overall mission is to provide administrative guidance and assistance to CSBs to support the provision of effective mental health, mental retardation and alcohol and drug services to residents of the Commonwealth. This involves coordination with the Department's disability offices, Office of Grants Management, and Information Systems Office.

CSB-related Functions

This office is the primary point of contact between the Department and the CSBs on administrative and performance contract accountability issues. Office responsibilities include:

- Negotiate original and revised performance contracts
- Evaluate, review, and report on the operation of the CSBs boards of directors and the general administrative and management operations of the CSBs
- Monitor/assess accomplishment of contract objectives and compliance with contractual assurances
- Provide CSB board member and new Executive Director orientations

and continuing education materials to CSBs

- Represent the Department at meetings with the Virginia Association of CSBs, regional CSB associations, and individual boards
- Advise, consult with, guide, and direct, as appropriate, CSB board members, executive directors and senior management staff on administrative and management policies, procedures, issues and operations
- Review CSB plans and analyze CSB data
- Provide assistance and support to CSBs in the recruitment of executive directors

Office of Information Technology Services (ITS)

Overall Mission

The ITS Office's overall mission is technical assistance to CSBs in information systems management and statistical reporting.

CSB-related Functions

This office assists CSBs in the following areas:

- Issuance of reporting information for CSBs
- Maintenance of CSB quarterly report data base
- Maintenance of medicaid remittance data base
- Preparation and dissemination of statistical reports from the data base
- Technical assistance to CSBs in the areas of:
 - Data requirements
 - Data processing related acquisition
 - Systems support and design
 - Telecommunications
 - Quarterly report automation

General Information Topics

Introduction

This section presents information of a general nature for the CSBs. Various topics of interest to the CSBs are noted below.

Statutes and State Board Policies

The Statutes of Virginia in Title 37.1-3 created the State Mental Health, Mental Retardation and Substance Abuse Services Board consisting of nine members appointed by the Governor and confirmed by the General Assembly. The Board has the power to develop and establish programmatic and fiscal policies governing the operation of state hospitals and community services boards. Both the *Code of Virginia* and State Board policy address community services boards. The *Code of Virginia* addresses community

services boards in Chapter 10 of Title 37.1, entitled *Community Mental Health, Mental Retardation and Substance Abuse Services*.

Code References for CSBs

Title 37.1, *Institutions for the Mentally Ill; Mental Health Generally*, of the Code of Virginia provides guidance for community services boards. Specifically, Chapter 10, *Community Mental Health, Mental Retardation and Substance Abuse Services*, §§ 37.1-194 through 37.1-202.1 of this title enumerates on relevant information pertaining to CSBs. Each code section of Chapter 10 relative to CSBs is summarized below.

- 37.1-194: Purpose; services to be provided
- 37.1-194.1: Definitions
- 37.1-195: Community services board; appointment; membership; duties of fiscal agent
- 37.1-196: Same; term; vacancies; removal
- 37.1-196.1: Compensation of board members
- 37.1-197: Community services boards; local government department; powers and duties
- 37.1-197.2: Background checks required
- 37.1-198: Performance contract for mental health, mental retardation and substance abuse services
- 37.1-199: Mental health, mental retardation and substance abuse services; allocation of funds by Department; withdrawal of funds
- 37.1-200: Same; withdrawal of county or city from program

The following sections of Chapter 10 of Title 37.1 of the *Code* relate specifically to financial matters.

- 37.1-195: Community services boards; appointment; membership; duties of fiscal agents.
- 37.1-196.1: Compensation of board members.
- 37.1-197: Community services boards; powers and duties.
- 37.1-198: Mental health, mental retardation and substance abuse programs; approval of plans and budget; application for grant.
- 37.1-199: Mental health, mental retardation and substance abuse programs; allocation of funds by Department; withdrawal of funds.
- 37.1-202.1: Liability for expenses of services.

State Board Policy

The State Board is authorized by Statute (Section 37.1-3) to develop policy to be administered through the Department.

State Board Policies are arranged numerically by classification. Classifications are represented in thousands. Policies relative to CSBs are found under classifications #4000 and #6000. Adoption of sequences within a classification is chronological (i.e., 4001, 4002, etc.)

Policy References

The following sections of the State Board Policy relate specifically to fiscal matters.

| Policy Number | Subject |
|----------------------|--|
| 4006(CSB) 81-2 | Liability Insurance Protection for Community Services Boards |
| 4010(CSB) 83-6 | Local Match Requirements for Community Services Boards |
| 4018(CSB) 86-9 | Community Services Boards Performance Contracts |
| 4021(CSB) 86-18 | Evaluation of Community Services Boards Administration and Programs |
| 4028(CSB) 88-1 | Communication with Community Services Boards and Their Contract Agencies |
| 6000(FIN) 77-1 | Central Office Pharmacy Fees |
| 6002(FIN) 86-14 | Services Availability and Ability of Client to Pay Philosophy |
| 6003(FIN) 87-5 | Community Services Boards Financial Management |
| 6004(FIN) 87-6 | Community Services Boards Funding Allocation System |
| 6005(FIN) 94-1 | Retention of Unspent funds by Community Services Boards |

Current Technical Bulletins

Technical bulletins are issued periodically by the Office of Financial Reporting and Compliance. These bulletins cover a variety of topics and are issued to provide technical assistance to the CSBs. OFRC has issued two technical bulletins to date as shown below.

1. Technical Bulletin 2000-01, Model RFP for Audit Services, issued July 2000
2. Technical Bulletin 2000-02, Model RFP for Banking Services, issued July 2000

These bulletins are on our web site at the address below. Additional technical bulletins developed will also be posted on our web site.

<http://www.dmhmrsas.state.va.us/OFRCpub.htm>

Records Management

Requirement The *Code of Virginia* (§42.1-85) requires each state agency and local government including CSBs to:

1. have an active program for economical and efficient management of its records.
2. obtain approval from the Virginia State Library and Archives (VSLA) prior to record destruction on Form RM-3, *Certificate of Records Disposal*, for those records listed in General Schedule No. 18. (Refer to the next section).
3. designate a Records Manager in writing to the Head of the Records Management Section of the VSLA.

**Records
Retention**

The Records Management and Imaging Services Division (RMISD) of the Library of Virginia offers a range of services to support the efficient and economical management of state and local government records. The division consists of four units: the Record Analysis Section, the State Records Center, the Circuit Court Records Preservation Program and the Imaging Services.

Several schedules are provided under the provisions of the Virginia Public Records Act, Sections 42.1-76 et seq. *Code of Virginia* for the retention and disposition of records. These schedules can be accessed on line at the address below.

<http://www.lva.lib.va.us/state/records/schedule/local-gs.htm>

General Schedule No. 18 titled, *Community Services Boards*, should be of particular interest to CSBs. The next section provides examples of record retention periods.

Examples

The following examples are specific record retention requirements of some of the more common documents.

| Record Description | Retention Period | VSLA General Schedule # |
|--|---|-------------------------------|
| Client Case Files - Juveniles | 10 years after last treatment or until juvenile reaches age of 23, whichever is greater, then destroy | #18 |
| Client Case Files - Adults | 10 years after last treatment, then destroy | #18 |
| Payroll Registers | 5 years after audit, then destroy | #2 |
| Purchase Orders, Requisitions, and Bid Documents | 5 years after audit, then destroy | #2 |

| | | |
|-------------------------------------|-----------------------------------|----|
| Employment Applications | 3 years, then destroy | 0 |
| Reimbursement Records and Records | 3 years after audit, then destroy | #2 |
| Accounts Payable Vouchers | 5 years after audit, then destroy | #2 |
| Bank Statements and Canceled Checks | 5 years after audit, then destroy | #2 |

Unclaimed Property

What is Unclaimed Property?

Unclaimed Property is all tangible or intangible property that has remained unclaimed by its owner for an extended period of time. This includes but is not limited to savings and checking accounts, wages or commissions, underlying shares, dividends, customer deposits, credit balances, gift certificates, credit memos, refunds, etc. In accordance with the Uniform Disposition of Unclaimed Property Act, Title 55, Chapter 11.1 §§ 55-210 – 55-210.30 of the *Code of Virginia*, property becomes unclaimed when the holder has not had contact with the owner of the property for a specified period of time. After the passage of the dormancy period, if there has been no activity generated by the owner, the property is then considered abandoned.

Unclaimed Property Division

The Unclaimed Property Division (UCP) of the Virginia Department of Treasury administers and promotes compliance with the Uniform Disposition of Unclaimed Property Act. Additional information can be found on line at the address below.

<http://www.trs.state.va.us/UCP/ucp.html>

Reporting Process

Businesses including CSBS are required to file an annual unclaimed property report. As stated in §55-210.12, Item D, “The report and remittance shall be filed before November 1 of each year as of June 30 next preceding, but the report and remittance of insurance corporations shall be filed before May 1 of each year as of December 31 next preceding.” Businesses uncertain as to whether or not the Act applies to them, should contact the UCP office for assistance. This office can be reached at: **ucpmail@trs.state.va.us** of **1-800-468-1088**.

Tax Status of CSBs

Utility Taxes

Community Services Boards were established under Title 37.1, *Institutions for the Mentally Ill; Mental Health Generally*, §37.1-194 of the *Code of Virginia*. CSBs are exempt from the payment of sales, telecommunication, and utility taxes. CSBs are also exempt from paying fuel taxes. CSBs that

have paid such taxes should apply for a refund of those taxes. Generally, CSBs can go back for the past 3 years to request such a refund. In some instances a CSB may realize significant cost savings by not paying utility taxes.

Tax Exempt Status CSBs are generally recognized as non-profit organizations and are not subject to federal or state income taxes. However, where a CSB has unrelated business income (UBIT), it may be subject to tax on such income. When this is the case, Form 990-T, *Exempt Organization Business Income Tax Return (and proxy tax under section 6033 e)* must be filed. Additional information on non-exempt status can be obtained by reviewing IRS Publication 557, *Tax Exempt Status for Your Organization*. This publication can be accessed online at www.irs.ustreas.gov.

Definitions

Administrative Policy CSBs The CSB does not employ its own staff. The CSB's Executive Director is hired by local government with the Board's participation. Services are provided by city or county employees or through contracts with other providers. Powers and duties are enumerated in Section 37.197B of the *Code of Virginia*.

Operating CSBs The CSB employs its own staff and provides services directly or through contracts with other providers. It is not a city or county Government department. Powers and duties are enumerated in Section 37.197A of the *Code of Virginia*.

Policy Advisory CSB The CSB has no operational powers or duties; it is an advisory board to a local government that provides services directly or through contracts with other providers. Powers and duties of the local department are enumerated in Section 37.197A of the *Code of Virginia*.

Behavioral Health Authority A Behavioral Health Authority is a local agency established by a city or county under Section 37.1-241 et seq. of the *Code of Virginia* that plans, provides (directly or through contracts) , and evaluates mental health, mental retardation, and substance abuse services in the locality it serves.

Sub-recipients The characteristics of sub-recipients are as follows:

- Has performance measured against objectives of a federal program
- Has responsibility for programmatic decision-making
- Has responsibilities for adherence to federal program requirements
- Uses federal funds to carry out a program of organization as compared to providing goods and services

- Determines eligibility for federal financial assistance

Vendors

Vendors have the following characteristics:

- Provides goods or services within normal business operations
- Provides similar goods to many different purchasers
- Operates in a competitive environment
- Provides goods or services that are ancillary to the operation of the federal program
- Not subject to federal compliance or DMHMRSAS requirements

**Contract
Agencies**

See Chapter 10.

**Multi-
jurisdiction
CSBs**

CSBs that serve more than one locality

**Single
Jurisdiction
CSBs**

CSBs that serve only one locality. A CSB's financial activities are considered to be a department of a locality and are included in the audit report of the locality.

Chapter 2: Budgeting and Funding Cycle

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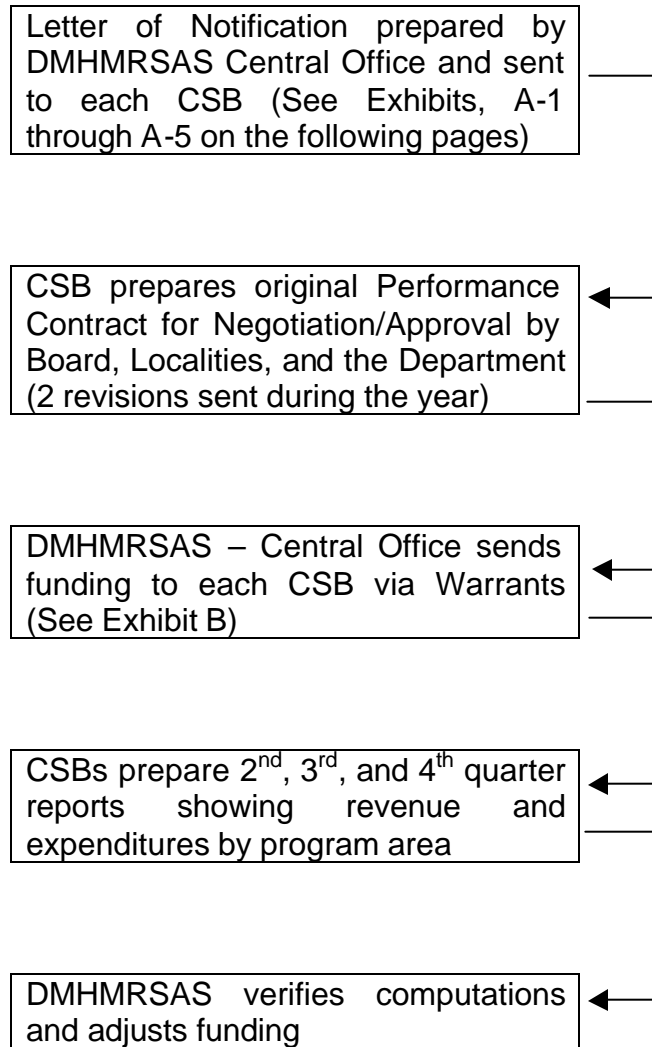
Budgeting and Funding Cycle

| | |
|------------------------------------|--|
| Introduction | This chapter discusses the Department's financial relationship to CSBs and the documents involved in that relationship. |
| Performance Contract | <p>The Performance Contract* is the vehicle by which a CSB is accountable to the Department for the funds it receives from the Department and for the services it provides with those funds. The Performance Contract is prepared by the Office of Community Contracting (OCC) and is based on the current Core Services Taxonomy and on the Letter of Notification.</p> <p>The CSBs should complete Exhibit A and related forms to receive funding.</p> |
| Budgeting and Funding Cycle | The block diagram presented on the next page illustrates the CSB budget and funding cycle. Refer to the Performance Contract <i>Attachment 6.2.3, Performance Contract Process</i> , for more details. |
| Core Services Taxonomy | The Core Services Taxonomy 6** defines the service units and static capacities used to count and report in uniform terms of the variety of services provided under the Performance Contract. Taxonomy 6 defines and describes six core service categories and 32 sub-categories. |
| CSB Letter of Notification | The Letter of Notification informs the CSB of its allocation of state general funds and federal funds that pass through the Department. |
| Request for Warrant | This document is used by DMHMRSAS to process funding to CSBs on a semi monthly basis. |

*References to the Performance Contract in this chapter refer to the FY2002 Performance Contract. CSBs should have a copy of the Performance Contract on file.

**Core Services Taxonomy 6 is found in *Attachment 5.2, Summary of Core Services Taxonomy 6 Service Definitions*.

Budgeting and Funding Block Diagram



Letter of Notification: Mental Health Services**Exhibit A-1**

PAGE

MENTAL HEALTH SERVICES SUMMARY: ONGOING SERVICESCHECK ONE: ☐ Letter of Notification
☐ Letter of Notification Revision (Date: _____)

FY _____

CSB _____

REVENUES FOR SERVICES DETAIL:

| | |
|-------|-----------------------------|
| _____ | MH General Funds |
| _____ | Regional Deaf Services |
| _____ | NGRI – Discharge Assistance |
| _____ | MH/SA Jail Services |
| _____ | One Time General Funds |
| _____ | Psychiatric Staff |

TOTAL Expenses _____

| | |
|-------|-----------------------|
| _____ | All Other Fees |
| _____ | Medicaid SPO |
| _____ | Medicaid Clinic |
| _____ | Medicaid Other |
| _____ | Medicaid Medallion II |

| | |
|-------|---------------------------|
| _____ | PATH |
| _____ | PATH Housing |
| _____ | SWVMH Board |
| _____ | FBG/SED C and A |
| _____ | FBG/SMI |
| _____ | Other Federal |
| _____ | Restricted Federal |
| _____ | Federal Retained Earnings |
| _____ | One Time Federal Funds |
| _____ | FBG POMS |

| | |
|-------|---------------|
| _____ | Local Gov't |
| _____ | Contributions |
| _____ | In-Kind |
| _____ | Other Local |

| | |
|-------|-----------------------|
| _____ | St. Retained Earnings |
| _____ | Other |

TOTAL REVENUES FOR SERVICES:

| STATE | LOCAL | FEE COLLECTIONS | FEDERAL | OTHER | TOTAL |
|-------|-------|--------------------|---------|-------|-------|
| _____ | _____ | _____ | _____ | _____ | _____ |

| | |
|-------|---------------------|
| _____ | MH GF |
| _____ | Children's MH Svcs. |
| _____ | Admin/POMS |
| _____ | Total MH GF |

Letter of Notification: Mental Retardation Services**Exhibit A-2**

PAGE

MENTAL RETARDATION SERVICES SUMMARY: ONGOING SERVICES

CHECK ONE: ☐ Letter of Notification
☐ Letter of Notification Revision (Date: _____)

FY _____

CSB _____

REVENUES FOR SERVICES DETAIL:

- 1) _____ MH General Funds
 2) _____ Family Support
 _____ One Time General Funds
 _____ Early Intervention
 _____ Children's Family Support

TOTAL Expenses _____

All Other Fees _____

Medicaid SPO _____

Medicaid Clinic _____

Medicaid ICF _____

Medicaid Other _____

Medicaid Medallion II _____

Child Day Care _____

Federal Early Intervention _____

Other Federal _____

Restricted Federal _____

One Time Federal Funds _____

Local Gov't _____

Contributions _____

In-Kind _____

Other Local _____

St. Retained Earnings _____

Other _____

TOTAL REVENUES FOR SERVICES:

STATE _____

LOCAL _____

FEE
COLLECTIONS _____

FEDERAL _____

OTHER _____

TOTAL _____

- 1) _____ MR GF
 _____ Admin/POMS
 _____ Total MR GF

- 2) _____ Maint. Family Support
 _____ New Family Support
 _____ Family Support

Letter of Notification: Substance Abuse Services
Exhibit A-3

PAGE

SUBSTANCE ABUSE SERVICES SUMMARY: ONGOING SERVICES

CHECK ONE: ☐ Letter of Notification
☐ Letter of Notification Revision (Date: _____) FY _____

CSB

REVENUES FOR SERVICES DETAIL:

- 1) _____ SA General Funds
 _____ Region V Residential
 _____ MH/SA Jail Services
 _____ One Time General Funds

TOTAL Expenses _____

Women's Set Aside _____

All Other Fees _____

Medicaid SPO _____

Medicaid Clinic _____

Medicaid Other _____

Medicaid Medallion II _____

2) _____

SA Alcohol FBG

3) _____

SA Drug FBG

SA Primary Prevention FBG

SA SARPOS FBG

SA HIV/AIDS FBG

Other Federal

Restricted Federal

Federal Retained Earnings

4) _____

One Time Federal Funds

Methadone HIV Counselors

RBHA Res. A/D

Prev-Strengthening Families Init.

Prev-Fetal Alcohol Syndrome

Local Gov't

Contributions _____

In-Kind _____

Other Local _____

St. Retained Earnings

Other

TOTAL REVENUES FOR SERVICES:

| STATE | LOCAL | FEE COLLECTIONS | FEDERAL | OTHER | TOTAL |
|-------|-------|--------------------|---------|-------|-------|
|-------|-------|--------------------|---------|-------|-------|

SA GF

Comm. Based Tmt.

Admin/POMS

Total SA GF

2) _____

SA Alc. FBG

Comm. Based Tmt.

Total SA Alc. FBG

3) _____

SA Drug FBG

Comm. Based Tmt.

Total SA Drug FBG

4) _____

Tobacco Prevention Funding

Letter of Notification: Purchase of Individualized Services**Exhibit A-4****SUBSTANCE ABUSE SERVICES SUMMARY: ONGOING SERVICES**

CHECK ONE: ☐ Letter of Notification
☐ Letter of Notification Revision (Date: _____)

CSB _____ FY _____

| Sources of Funds for Allocation | | Allocations | |
|---|----------|-------------|---------|
| | | State | Federal |
| Mental Health | | | |
| 1. Persons with SMI (Discharge Asst. Project) | Form: 62 | | |
| 2. Children and Adolescents with SED | Form: 76 | | |
| | | | |
| Total Mental Health Allocations | | | |

| | | Allocations | |
|--------------------------------------|----------|-------------|-------------|
| | | State | Waiver Fees |
| Mental Retardation | | | |
| 1. Waiver | Form: 82 | | |
| 2. Non-Waiver | Form: 85 | | |
| | | | |
| Total Mental Retardation Allocations | | | |

| Substance Abuse | | Allocations | |
|-----------------------------------|--|-------------|---------|
| | | State | Federal |
| | | | |
| | | | |
| | | | |
| Total Substance Abuse Allocations | | | |

Note: The Sources of Funds equate to the titles on the CARS drop down menus.

Letter of Notification: Special Projects**Exhibit A-5****SUBSTANCE ABUSE SERVICES SUMMARY: ONGOING SERVICES**

CHECK ONE: ☐ Letter of Notification
☐ Letter of Notification Revision (Date: _____)

CSB _____ FY _____

| Sources of Funds for Allocation | | Allocations | |
|---|----------|-------------|---------|
| | | State | Federal |
| Mental Health | | | |
| 3. Assisted Living Facility (ALF) Pilot | Form: 68 | | |
| 4. PACT | Form: 69 | | |
| 5. Residential Services for SMI | Form: 71 | | |
| | | | |
| | | | |
| Total Mental Health Allocations | | | |

| Substance Abuse | | Allocations | |
|------------------------------------|-----------|-------------|---------|
| | | State | Federal |
| | | | |
| 1. AS State Facility Diversion | Form: 95 | | |
| 2. Community Based Treatment Women | Form: 98 | | |
| 5. SA Jail Services | Form: 100 | | |
| | | | |
| Total Substance Abuse Allocations | | | |

Note: The Sources of Funds equate to the titles on the CARS drop down menus.

DMHMRSAS
Request for Warrant

Exhibit B (Page 1)

DATE _____

SERVICES BOARD:

WARRANT PAYABLE TO: _____

MAIL WARRANT TO: _____

FIN#: _____

This approval of a State Grant of Funds is authorized by Chapter 10, Title 37.1-194 through 37.1-200 of the Statutes of Virginia and funded by item 329 of the Appropriations Act. Please be advised that funding for the program indicated has been approved and submitted to the State Comptroller for payment.

| <u>PROGRAM</u> | <u>DOLLARS</u> |
|---|-----------------------|
| <u>Administration Ongoing Services (1)*</u> | _____ |
| <u>POMS Funding (2)*</u> | _____ |
| <u>Mental Health Services</u> | |
| <u>Ongoing Services</u> | |
| <u>MH General Funds (3)*</u> | _____ |
| <u>MH Psychiatric Staff Funds (29)*</u> | _____ |
| <u>Regional Deaf Services (4)*</u> | _____ |
| <u>MH NGRI Discharge Assistance Funds (5)*</u> | _____ |
| <u>MH Residential Services (6)*</u> | _____ |
| <u>Purchase of Individualized Services</u> | |
| <u>Persons w/SMI (Discharge Asst. Project) (28)*</u> | _____ |
| <u>Children and Adolescents with SED (7)*</u> | _____ |
| <u>Special Projects</u> | |
| <u>Residential Care for SMI (8)*</u> | _____ |
| <u>Residential Services for MI (9)*</u> | _____ |
| <u>Children's Mental Health Services (10)*</u> | _____ |
| <u>Mental Retardation Services</u> | |
| <u>Ongoing Services</u> | |
| <u>General Funds (11)*</u> | _____ |
| <u>Waiting List (12)*</u> | _____ |
| <u>Family Support (13)*</u> | _____ |
| <u>Children's Family Support (14)*</u> | _____ |
| <u>Purchase of Individualized Services</u> | |
| <u>Waiver (15)*</u> | _____ |
| <u>Substance Abuse Services</u> | |
| <u>Ongoing Services</u> | |
| <u>SA General Funds (16)*</u> | _____ |

*Numbers in parenthesis refer to the corresponding numbers on Exhibit B pages 4 and 5.

DMHMRSAS
Request for Warrant

Exhibit B (Page 2)

Special Projects

Alcohol of Drug Facility Diversion (17)*

Community-Based Treatment Services (18)*

Mental Health Services – FEDERAL

Mental Health Services CFDA # 93.958 Ongoing Services

FBG / SED C&A (19)*

FBG/PSYCHIATRIC STAFF (30)*

FBG/POMS

Substance Abuse Services – FEDERAL CFDA # 93.959

Ongoing Services

Alcohol

FBG (20)

Alcohol-Women's Set Aside

FBG (21)

Drug

FBG (22)

Drug-Women's Set Aside

FBG (23)

SA Primary

Prevention FBG (24)*

SA Prevention One Time

Prevention FBG (31)*

SA

SARPOS FBG (25)*

Special Projects

SA

Alc. FBG

Community-Based Treatment Services (26)*

Drug FBG

Community-Based Treatment Services (27)*

AMOUNT OF STATE FUNDS REQUESTED FOR THIS WARRANT:

*Numbers in parenthesis refer to the corresponding numbers on Exhibit B pages 4 and 5.

DMHMRSAS
Request for Warrant

Exhibit B (Page 3)

DUE DATE: _____

| <u>VENDOR</u> | <u>DESCRIPTION</u> | <u>TOTAL AMOUNT</u> | <u>INV DATE</u> |
|---------------|--------------------|---------------------|-----------------|
| | | | |
| | | | |

[illegible]

DMHMRSAS
Request for Warrant

Exhibit B (Page 4)

| | | | |
|------|--|--|--|
| (1) | Regular Funding FY01 COLA Adjustment | | |
| (2) | Regular Funding | | |
| (3) | Regular Funding FY01 COLA Adjustment FY00 MH SPO Due Dept. 8/29/00 pp# 16 | | |
| (4) | Regular Funding | | |
| (5) | Regular Funding – NGRI-Ltr. 1/22/XX pp# 18 | | |
| (6) | Regular Funding | | |
| (7) | Children & Adol. W/SED Encumbered Bal. Ltr. 4/27/XX Funding Reduction Ltrs. (4) of 5/3/XX | | |
| (8) | Regular Funding | | |
| (9) | MH Comm. Res. Svcs. for Persons w/MI Less: Pmts. 1-17 @8,189 Less: FY00 6/30/XX Balance Due Dept. Remaining Funds Add'l Funding Approved 3/21/XX | | |
| (10) | Regular Funding | | |
| (11) | Regular Funding FY01 COLA Adjustment Less Pmts. 1/15 Balance of Funds FY00 MR SPO Due Date 8/29/XX Remaining FundsFY20XX OBRA | | |
| (12) | Regular Funding | | |
| (13) | Regular Funding | | |
| (14) | Regular Funding | | |
| (15) | MR One-Time GF Ltr. 7/7/20XX pp# 4 | | |

Note: Cross reference parenthetical numbers in column 1 to Exhibit B pages 1 and 2.

DMHMRSAS
Request for Warrant

Exhibit B (Page 5)

| | | | |
|------|--|--|--|
| (16) | Regular Funding FY01 COLA Adjustment | | |
| (17) | Regular Funding | | |
| (18) | Comm. Based Treatment Less: Pmts. 1-17 @ 1,830 Less: FY00 6/30/XX Balance Due Dept. Remaining Funds | | |
| (19) | Regular Funding | | |
| (20) | Regular Funding | | |
| (21) | Regular Funding | | |
| (22) | Regular Funding Add: One Time Funding Ltr 4/25/XX for Drug Court Initiative | | |
| (23) | Regular Funding | | |
| (24) | Regular Funding | | |
| (25) | Sarpos Original Funding Less: Pmts. 1-11 @ 1,678 Less FY20XX Retained Earnings Balance of Funding | | |
| (26) | Regular Funding | | |
| (27) | Regular Funding | | |
| (28) | Discharge Asst. Project March Billing pp# 22 | | |
| (29) | Psychiatric Staff State Funding | | |
| (30) | Psychiatric Staff Federal Funding | | |
| (31) | SAPT Prevention One Time Funding Ltr. 2/15/XX pp# 17 | | |
| (32) | MH FBG POMS Funding Ltr. 5/11/XX | | |

Note: Cross reference parenthetical numbers in column 1 to Exhibit B pages 1 and 2.

Chapter 3: Responsibilities for Financial Management

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- Board of Directors, 35
- Executive Director, 35
- Fiscal Director's Role, 35

Continuing Professional Education, 36

Standard Operating Procedures, 37

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Local Government (CSB) Insurance
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Responsibilities for Financial Management

Introduction This chapter discusses the roles and responsibilities of the CSB Board of Directors, Executive Director, and Fiscal Director. It is everyone's role to be fiscally responsible. Efforts should be made to assess the necessity and benefit of any spending. Costs should be reasonable, waste should be minimized, and revenue should be maximized.

Management Responsibilities

Board of Directors The Board of Directors has a fiduciary responsibility over CSB activities. Board members need timely and accurate information for sound decision making.

Executive Director The Executive Director, as agent of the Board of Directors, has ultimate administrative responsibility for all CSB activities. The Executive Director supervises the Fiscal Director who operationally supervises fiscal activities. The Executive Director should work closely with the Fiscal Director and staff to gain an understanding of fiscal matters and be well-versed when communicating with the Board, local government and others.

Fiscal Director It is the Fiscal Director's responsibility to design fiscal policy and ensure compliance with it. The Fiscal Director should also ensure that the systems in place provide for the proper recording and classifying of all accounting activities and that accounting activities are performed in a timely manner.

The Fiscal Director typically has responsibility for managing the following functions:

- Accounts payable/receivable
- Payroll
- Fixed asset management
- Procurement
- Budget
- Third party reimbursement

The Fiscal Director typically has the following fiscal duties:

- Financial policies and procedures
- Internal controls design and maintenance
- Accurate and timely reporting for management
- Financial statements in accordance with generally accepted accounting principles

- Compliance with all government regulations
- Risk Management
- Assist Board and Executive Director with fiscal decisions
- Appropriate cost accounting methodology
- Proper audit of all funds
- Training and development of fiscal staff
- Records retention

Continuing Professional Education (CPE)

Purpose One way to enhance the knowledge, skills, and abilities of the Fiscal Director and key fiscal staff is to encourage continuing professional education (CPE). Continuing professional education should not be limited only to those who are maintaining professional designations such as CPA (Certified Public Accountant), CMA (Certified Management Accountant) or CFE (Certified Fraud Examiner), etc. CSB management should encourage continuing professional education to ensure that fiscal staff remains abreast of current developments in their profession. Sources are listed below through which continuing professional education can be obtained.

- American Institute of CPAs (AICPA)
1211 Avenues of the Americas
New York, NY 10036
(800) 862-4272
- Virginia Society of CPAs (VSCPA)
P.O. Box 4620
Glen Allen, VA 23058-4620
(804) 270-5344
- Association of Government Accountants (AGA)
2208 Mt. Vernon
Alexandria, VA 22301
(800) AGA-7211
- Government Finance Officers' Association (GFOA)
180 N. Michigan Avenue, Suite 800
Chicago, IL 60601
(312) 977-9700
- Virginia Government Finance Officers Association
401 McIntire Road
Charlottesville, VA 22902
(804) 296-5847

- Local colleges and universities
(Contact colleges and universities directly for information)

Standard Operating Procedures

| | |
|---------------------------------------|--|
| Fiscal Policies and Procedures | <p>Fiscal operations are defined by procedures and policies created by the Fiscal Director. For example, basic procedures should be documented for the following:</p> <ul style="list-style-type: none"> ▪ Accounts receivable/reimbursement ▪ Accounts payable ▪ Budgeting ▪ Payroll ▪ Petty cash and cash receipts ▪ Purchasing/receiving ▪ Fixed asset management ▪ General ledger maintenance ▪ Reconciliations ▪ Credit cards ▪ MIS Security |
| Reasons for Documentation | <ul style="list-style-type: none"> ▪ Documented procedures provide support for those employees who backup a function. ▪ Documented procedures provide concrete guidance and prevent inappropriate interpretation by employees. ▪ Documented procedures reduce internal conflicts regarding how to accomplish a task. ▪ Documented policy and procedures can be presented to the Board for discussion and approval. ▪ Documented policies and procedures provide a tool for new employees and promote an environment of independent learning. ▪ Documented policies and procedures provide management with support when addressing non-compliant performance. |
| Format | The actual format used for writing standard operating procedures should be decided by the Fiscal Director and Executive Director. |
| Example | The following is a simple example of a standard operating procedure to process invoices. The format used here is "Step- Action". This is just one of the many different formats that can be used. |

| Step | Action | Done by |
|------|---|--------------|
| 1 | Date stamp all incoming invoices. | Receptionist |
| 2 | Sort all incoming invoices in a tickler file by due date. | AP Asst. |
| 3 | Match all invoices with purchase order and receiving document. | AP Tech. |
| 4 | Ensure that all invoices are approved by the Office Director and by the Fiscal Director or other designated person. | AP Tech. |
| 5 | Prepare checks and check run. | AP Tech. |
| 6 | Have checks signed and verified. | AP Tech. |
| 7 | Distribute checks. | Secretary |

Risk Management

Introduction The Fiscal Director usually has responsibility or at a minimum some involvement in the CSB's risk management practices. The section is included to provide an awareness of the importance of effective and cost beneficial risk management.

Definition Risk management is defined as the reasonable precautions that an organization takes to protect itself from losses and to recover losses when they occur. Risk management is similar to internal control in that it endeavors to safeguard assets.

Coverage Coverage may include the following:

- Appropriate bonding (surety)
- Officers liability insurance
- Professional staff liability insurance
- Comprehensive loss insurance
- Fire and theft insurance
- Automobile insurance
- Medical malpractice
- General liability
- Errors and omissions

VARISK 2 CSBs should refer to the *CSB Procurement Procedures Manual* issued by the

Department for additional guidance on risk management procurement. This manual was revised January 1999 and is available on the DMHMRSAS' website at www.dmhmrsas.state.va.us/csb. Contact DMHMRSAS' Administrative Services Division at (804) 786-3915 for information regarding risk management procurement. Additional information can also be found at the Commonwealth of Virginia Department of Treasury's website at www.trs.state.va.us.

**Local
Government
Insurance
Programs**

There are currently four local government insurance programs available to CSBs. A CSB is not required to engage in competitive bidding in order to obtain quotations from these sources because they are either state government or non-profit quasi-governments organizations. The sources are listed on the next page with their offerings.

Local Government Insurance Programs

| Organization | Offerings/Insurance Program | Phone # | Approx. Response Time for Quote |
|--|--|--------------------------------------|---------------------------------|
| VARisk - Dept of the Treasury Contact: Joyce Palmer joyce.palmer@trs.state.va.us | * Public Officials General Liability * Medical Malpractice * Auto Physical Damage Liability | 804/786-3152 Fax: 804/371-1400 | 1 week |
| VML (Virginia Municipal League) Contact: Cathie Moreland-Hasty chasty@vml.org | * Workers' Comp * Public Officials Liability * Property and Casualty * Auto Physical Damage/Liability * Others | 888/295-4865 Fax: 804/643-0351 | 30 days |
| VACo – Virginia Association of Counties Contact: Chris Carey chris@vacoins.org | * Workers' Comp * Public Officials Liability * Property and Casualty * Auto Physical Damage/Liability * Health Ins. and Others | 888/822-6772 Fax: 540/345-5330 | 1-2 weeks |
| The Local Choice (Dpt. of HRM) Contact: Walt Norman wnorman@dhrm.state.va.us | * Health Insurance | 804/786-6460 Fax: 804/371-0231 | 10 days |

Summary details of these programs were issued to CSBs in a memo from Dr. Joy Yeh on April 3 2002. CSBs should consult this memo for details or contact the Office of Financial Reporting and Compliance.

**Chapter 4:
Internal Control, Fraud Reporting
And
Financial Review Process**

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Internal Control, Fraud Reporting, and Financial Review Process

Introduction This chapter introduces internal control concepts and principles, fraud reporting information, and the financial review process utilized by OFRC. The review of fiscal year-end CSBs' and contract agencies' audit reports (i.e., desk audit reviews) is also discussed.

What is Internal Control?

Definition Internal control consists of the plan of organization and the methods and measures to:

- Safeguard assets
- Check accuracy and reliability of accounting data
- Promote operational efficiency
- Encourage adherence to prescribed managerial policies

The Executive Director has ultimate responsibility for the system of internal control.

Importance A system of strong internal controls can minimize a CSB's exposure to:

- Fraud, abuse, and waste
- Budget deficits
- Non-compliance with Board policies and procedures
- Inaccurate financial reporting
- Public scrutiny due to financial improprieties

Nine Standards of Internal Control

Standards The nine standards of internal control are listed on the next page. These standards should be reviewed when establishing and maintaining a system of internal controls.

Internal Control Standards

| No. | Standard | Common Control Techniques | Illustration |
|-----|--|---|--|
| 1 | DOCUMENTATION (Internal Controls should be documented). | <ul style="list-style-type: none"> âOperating Plans âOrganizational Charts âJob Descriptions âPolicies and Procedures | Written payroll preparation procedures |
| 2 | RECORDING (Transactions should be recorded as executed and should be properly classified). | <ul style="list-style-type: none"> âProgress Reports âUse of Checklists and Logs âUse of Pre-numbered Receipts | Weekly cash balance reconciliation |
| 3 | AUTHORIZATION (Transactions should be executed as authorized). | <ul style="list-style-type: none"> âClear Chain of Command âPeriodic Inspection âApproval of all Changes | An authorized signature required on all purchase orders. |
| 4 | STRUCTURE (Key duties should be separated so that no one person controls all phases of an activity). | âSeparate the following key duties: approving, processing, recording, reviewing, and custody. | Cashier should not post payments to reimbursement accounts. |
| 5 | SUPERVISION (Supervisors should ensure that procedures are followed). | <ul style="list-style-type: none"> âPerformance Evaluations âScheduled and unscheduled review of work | Supervisor should provide on-the-job training. |
| 6 | SECURITY (Access to assets is limited to authorized personnel). | <ul style="list-style-type: none"> âPhysical Control and Pre-numbering of Critical Forms (e.g., blank checks, receipts) âSafes, Locking Doors, Drawers, Filing Cabinets, Alarms | Blank checks and/or check books are locked up and controlled. |
| 7 | COMPETENT PERSONNEL (Key personnel should be competent and have high standards of integrity). | âProper Hiring and Training (formal and on-the-job) | Hire competent and experienced individuals with high standards of integrity. |
| 8 | REASONABLE ASSURANCE (Internal controls provide reasonable, but not absolute assurance that control objectives will be accomplished). | âCosts of implementing controls should not exceed the benefits derived. | Benefits are significant reductions in the risks of failing to achieve the stated control objectives. |
| 9 | RECORDS (Records should be secure from unauthorized use). | <ul style="list-style-type: none"> âSecure computer data through passwords. âSecure financial and administrative data in locked cabinets or rooms. | System and program passwords required for the payroll, general ledger, and reimbursement applications. |

Basic Tools of Internal Control

| | |
|---------------------------|--|
| Introduction | <p>There are three basic tools to use when documenting and analyzing internal control strengths and weaknesses. Each is described below.</p> <p><u>Flowcharting</u> - Flowcharting is a graphic presentation of the major processes involved in an operation (e.g., cash receipts).</p> <p><u>Narratives</u> - Narratives are written descriptions of the major processes involved in an operation.</p> <p><u>Internal Control Questionnaire</u> – An Internal Control Questionnaire (ICQ) is a document used to assess the adequacy of controls relating to operations. The questionnaire is structured to make assessments of the nine standards of internal control. A copy of an ICQ is available upon request.</p> |
| Other Tools | <p><u>Control Matrices</u> – Two-dimensional matrices that illustrate controls</p> <p><u>Data Flow Diagrams</u> – Adaptation of flow charts that present only four symbols: entities, processes, data type, and data flow.</p> |
| Which Tool to Use? | <p>The choice of which tool to use is dependent upon the preference of the person documenting and analyzing the operations.</p> |

Fraud Reporting

| | | | |
|--|---|--|---|
| Introduction | <p>Fraud is an intentional wrongful act with the purpose of deceiving or causing harm to another party. The <i>Code of Virginia</i> requires the reporting of fraudulent transactions which have occurred within a CSB (<i>Code of Virginia</i>, Title 30, General Assembly, Chapter 14, Auditor of Public Accounts, Section 30-138). The full text of this code section can be accessed on line at Virginia's website www.state.va.us and clicking on the <i>Code of Virginia</i>.</p> | | |
| Reporting Procedure | <p>Upon discovery of circumstances suggesting a reasonable possibility that a fraudulent transaction has occurred, the Executive Director shall report such information immediately to both offices below. The failure to report is a Class Three misdemeanor.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> Virginia Auditor of Public Accounts James Monroe Building, 8th Floor P.O. Box 1295 Richmond, VA 23210 Tel (804) 225-3350 </td><td style="width: 50%; vertical-align: top;"> Virginia State Police Bureau of Criminal Investigations 7700 Midlothian Tnpk. Richmond, VA 23235 Tel (804) 674-2000 Fax (804) 674-2132 </td></tr> </table> | Virginia Auditor of Public Accounts James Monroe Building, 8 th Floor P.O. Box 1295 Richmond, VA 23210 Tel (804) 225-3350 | Virginia State Police Bureau of Criminal Investigations 7700 Midlothian Tnpk. Richmond, VA 23235 Tel (804) 674-2000 Fax (804) 674-2132 |
| Virginia Auditor of Public Accounts James Monroe Building, 8 th Floor P.O. Box 1295 Richmond, VA 23210 Tel (804) 225-3350 | Virginia State Police Bureau of Criminal Investigations 7700 Midlothian Tnpk. Richmond, VA 23235 Tel (804) 674-2000 Fax (804) 674-2132 | | |

| | |
|--------------------------------------|--|
| Recommended Procedures | <p>The Executive Director should ensure that the following procedures are performed:</p> <ol style="list-style-type: none">1. Secure records for State Police examination.2. Call the Virginia State Police, Bureau of Criminal Investigations (BCI). An investigator will be dispatched as soon as possible. Send a copy of the letter as shown on page 46 to BCI, APA, and DMHMRSAS.3. After discussion with the State Police, consider placing employee(s) on administrative leave. Be sure to remove their access to CSB facilities (keys, access cards, passwords, etc.)4. Notify DMHMRSAS Internal Audit Director (804-786-5837). |
| Other Recommended Procedures | <ol style="list-style-type: none">1. In conjunction with the State Police investigator, determine what procedures and controls can be established to prevent the fraud from occurring again.2. Review the planned new procedures and controls with DMHMRSAS Office of Internal Audit and the CSB's auditor. |
| Notes | <p>It is not necessary for the CSB to notify the local police department. If federal funds are involved, the Virginia State Police will notify the FBI.</p> |
| Sample Fraud Reporting Letter | <p>See the next page for a sample fraud reporting letter. Please check the websites of the various agencies (Virginia State Police, APA, DMHMRSAS) to ensure letters are addressed to the current agency heads.</p> |

Sample Fraud Reporting Letter

July xx, 2002

Colonel W. Gerald Massengill, Superintendent
Virginia State Police
P.O. Box 27472
Richmond, VA 23261-7472

Dear Colonel Massengill:

In accordance with §30-138 of the *Code of Virginia*, this letter is to notify your office of apparent fraudulent activity at (specify facility, exact address, and city). This facility is used by the Virginia Community Services Board (specify name of CSB) to conduct CSB business.

Our initial internal investigation has revealed that approximately \$ (specify amount) was misappropriated from the CSB over a period of time (specify period, if known). Briefly summarize what apparent fraudulent actions have occurred. We have placed the suspected employee(s) on administrative leave pending the outcome of your investigation. State whether or not federal funds were involved (if so, the State Police will notify the FBI).

If you have any questions or need additional information on this case, please contact me or my Director of Administration (specify name and phone number).

A copy of this letter has been sent to the Virginia Auditor of Public Accounts, the Commissioner of the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services, Lt. Col. Stilwell of the Virginia State Police and DMHMRSAS Internal Audit Director.

Sincerely

CSB Executive Director

pc: Walter J. Kucharski, Virginia Auditor of Public Accounts
James S. Reinhard, M.D., DMHMRSAS Commissioner
Lt. Col. Darrel E. Stilwell, Director, Bureau of Criminal Investigations, Va. State Police
Anthony Gintout, DMHMRSAS, Internal Audit Director

Note: Please check the websites of the various agencies (Virginia State Police, APA, DMHMRSAS) to ensure letters are addressed to the current agency heads.

Financial Review Process

| | |
|--|--|
| Introduction | This section discusses the financial review process conducted by the Office of Financial Reporting and Compliance (OFRC). |
| Purpose of the Financial Review | This process intends to offer constructive recommendations regarding CSB financial management issues. The review is not an audit and is conducted in a consultative fashion. |
| Authority | The authority for the financial review process is found in State Board Policies: <ol style="list-style-type: none">1. Number 6003 (FIN) 87-52. Number 4021 (CSB) 86-18 |
| Schedule | A CSB should expect a review approximately once every two years. Reviews may also be conducted at the request of the Board, Executive Director, DMHMRSAS or other parties depending upon need. |
| Fieldwork Procedures | <p>The procedures below are performed during the review process:</p> <ol style="list-style-type: none">1. An entrance conference is held with the Executive Director and Fiscal Director.2. An analysis of CSB financial operations is conducted in the areas of:<ul style="list-style-type: none">▪ Financial policies and procedures▪ Accounting system and functions▪ External audit and internal controls▪ Contractual programs▪ Organizational structure▪ Timeliness of reporting▪ Cost accounting and budgeting▪ Federal grants management and cash management3. Limited transaction testing.4. Documentation of systems of internal control.5. An exit conference is held with the Executive Director and Fiscal Director. |
| Written Report | <p>The written report process is as follows:</p> <ol style="list-style-type: none">1. The review team prepares the draft report. The Director of OFRC reviews the draft report and the work papers.2. The draft report is issued to the Executive Director of the CSB with a two-week time frame for review and response to the recommendations.3. The final report including the Executive Director's responses to the |

recommendations is issued to the CSB Chairperson and Commissioner of DMHMRSAS.

Support The OFRC is available to assist CSBs with the implementation of any recommendations.

Desk Reviews of Audit Reports

Purpose The desk review is a review of the CSBs' and contract agencies' fiscal year-end audit reports and financial statements. Emphasis is placed on applicable reporting standards and requirements, financial statement presentation, and note disclosures as well as the overall auditor's report. This review is not an audit. It closely resembles a quality assurance (or peer review) of the independent audit firm.

Desk Review Process Desk reviews are conducted of all CSB and contract agency audits. Audit reports should be submitted to DMHMRSAS by November 30, as required. A review program checklist is used that has the following sections. Each section has applicable review steps.

- Submission of Audit Reports
- Management Letter
- Independent Auditor's Report
- Financial Statement Presentation
- General Information (Balance Sheet, Statement of Operations, Statement of Cash Flows, Statement of Changes in Fund Balances)
- Single Audit Reports (Report on Compliance and Internal Control, Report on Compliance with Requirements, Schedule of Findings and Questioned Costs, Schedule of Expenditures of Federal Awards)
- DMHMRSAS Disclosures
- Notes to Financial Statements

Written Report The Commissioner of DMHMRSAS signs the written report. The final report is issued to the respective CSB Executive Director with copies to the independent auditor and the Office of Community Contracting. A written response (Plan of Correction) is generally required to be submitted within 90 days after the report is issued.

Chapter 5:
Financial Reporting

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Financial Reporting Models

Introduction Community services boards exist in an environment of numerous funding streams. Because of the need to account for a variety of fund sources, fund accounting within this environment is necessary. This chapter introduces the Governmental Health Care Reporting Model and the Uniform Cost Reporting Model.

Governmental Health Care Reporting Model

Background Community services boards provide behavioral health care services in the areas of mental health, mental retardation and substance abuse services. This fact places them squarely within the health care arena. According to the American Institute of Certified Public Accountants (AICPA) Health Care Organizations Audit and Accounting Guide, health care organizations can be classified as follows:

- Investor Owned Health Care Enterprises;
- Not-for-Profit Business Oriented Organizations; and
- Governmental Health Care Organizations.

Definition Governmental health care organizations are defined as “public corporations and bodies corporate and public.” Other organizations are governmental organizations if they have one or more of the following characteristics:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization’s governing body by officials of one or more state or local government;
- The potential for unilateral dissolution by a government with the assets reverting to a government; or
- The power to enact or enforce a tax levy.

Virginia’s community services boards are comprised of appointed officials from one or more local governments. This, combined with the fact that as agents of local government they provide behavioral health care services, makes them governmental health care providers. For this reason, the appropriate financial reporting model for annual financial statements in accordance with generally accepted accounting principles (GAAP) is the *AICPA Health Care Organizations Audit and Accounting Guide*. Also refer to Chapter 9 of this guide that is titled, *Audit Requirements for CSBs and Contract Agencies*.

Uniform Cost Report (UCR)

| | |
|----------------------------------|---|
| Introduction | Cost accounting is a vital function within the community services board environment. It is used to establish unit cost of service provision for internal management analysis. There tends to be a direct relationship between the quality of information derived from the function of cost accounting and the quality of management decision-making. |
| Definitions | <p>An understanding of the following definitions is important when analyzing cost accounting information.</p> <ul style="list-style-type: none">▪ Cost Accounting - That form of accounting that has as its objective the costing of an activity, object or unit of service.▪ Cost Objective - Any activity for which a separate measurement of cost is desired.▪ Direct Cost - A cost that can be directly assigned to a given cost objective.▪ Indirect Cost - A cost that is not easily assignable to a given cost objective. These costs must be allocated to the cost objective in accordance with their proportionate benefit derived.▪ Allocation Bases - An allocation base represents the basis upon which a cost is to be allocated (e.g., square footage, FTEs, etc). |
| Uniform Cost Report (UCR) | A Uniform Cost Report (UCR) has been developed by DMHMRSAS to be used by all community services boards beginning with FYE June 30, 2002. The complete UCR is on the Department's website at www.dmhmrzas.state.va.us . |

Chapter 6:
Federal Grants Management

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Federal Grants Management

- Introduction** DMHMRSAS is the recipient of many federal awards with the largest being the Substance Abuse Prevention and Treatment (SAPT) Block Grant. Most awards to the Department are non-competitive and on going. This chapter discusses how the federal grants impact on financial management.
- Oversight** The Department monitors awards for fiscal and program compliance. Compliance is based on regulations from the federal grantor and regulations from the U. S. Office of Management and Budget. CSBs are sub-recipients of all awards passed through the Department as grants.

Types of CSB Awards

- Allocated Grants** Grants are usually allocated based on formulas, history, requests for proposals (RFP), or other events such as natural disasters.
- Reimbursed Grants** Grants where payment is linked directly to the completed performance of some activity. The following table shows the federal funding sources from which the CSBs have received funds. The Department is the recipient and the CSB is the sub-recipient.

| Title of Federal Grants to CSBS | CFDA No. | Performance Contract | Other |
|--|-----------------|-----------------------------|--------------|
| Early Intervention Part C | 84.181 | X | |
| HIV Counselors | 93.188 | X | |
| Child Care Block Grant | 93.575 | X | |
| PATH | 93.150 | X | |
| SA Prevention & Treatment Block Grant (SAPT) | 93.959 | X | |
| MH Block Grant | 93.958 | X | |
| Shelter Plus | 14.238 | X | |
| Richmond CSB Residential A & D Program | 93.102 | X | |
| VA Topps II – ST Treatment Outcomes | 93.238 | X | |
| TANF/LINK Welfare To Work | 17.253 | X | |
| VA Comprehensive System of Care | 93.104 | X | |

- Performance Contract** All federal grants are budgeted on the Performance Contract and reported to the State on quarterly performance reports.

Chapter 7:
Fixed Asset Management

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Fixed Asset Management

Introduction This chapter discusses fixed asset management and provides guidelines for establishing fixed asset listings and physical inventory. Other CSBs and localities may also provide help when designing a fixed asset system. There are many objectives of fixed asset management such as providing information for:

- Financial statement preparation
- Substantiation of insurance claims
- Planning and budgeting
- Repair and maintenance planning
- Accountability & loss prevention
- Disposal
- Cost recovery
- Identification of idle or obsolete assets

Fixed Asset Definitions

General Definition Fixed assets most often consist of land, buildings, improvements, equipment, and construction in progress.

Capitalization Limit A CSB should establish its own threshold for capitalization of fixed assets.

Example:

All fixed assets acquired with a value of over \$500 and a useful life greater than 1 year will be capitalized and accounted for in the fixed asset management system. A CSB should state this policy in writing.

The table on the next page presents definitions/descriptions of assets and capitalized costs.

Fixed Assets (Definitions and Descriptions)

| Asset Type | Definition/Description | Capitalized Cost |
|-------------------------------------|--|---|
| Land | Real property whose title is held by a CSB | <ul style="list-style-type: none"> - Purchase Price - Incidental Costs/Fees: <ul style="list-style-type: none"> Legal and title fees Survey/recording fees Appraisal fees Site preparation fees |
| Buildings | Roofed structures for permanent or temporary storage of people or things. HVAC systems would be included as a separate category of buildings. | <ul style="list-style-type: none"> - Purchase/constructed Cost - Incidental Costs/Fees: <ul style="list-style-type: none"> Architect fees Other professional fees Insurance - Improvements that extend the useful life |
| Improvements (other than Buildings) | Non-building and non-land related improvements such as paving, fencing, concrete work | - Purchase or constructed price |
| Capital Leases | Leases which are in substance the acquisition of fixed assets (see section F & G) | <ul style="list-style-type: none"> - Net present value of the lease payments - Include in asset type Buildings or Equipment |
| Equipment | <p>Property of any kind which</p> <ul style="list-style-type: none"> -is complete in itself -does not lose identity or become a building component. <p><u>Component Parts:</u> Part of a unit of equipment that cannot be used independently should be included in the cost of the equipment unit. For example, component parts of a PC (cpu, monitor, and keyboard) should be included in the cost of the PC.</p> | <ul style="list-style-type: none"> - Purchase price - Incidental Costs, such as freight and transportation charges |
| Leasehold Improvements | Improvements to leased property such as buildings, walkways, permanently installed equipment | <ul style="list-style-type: none"> - Purchase or constructed price -Include in asset type Buildings or Equipment |
| Construction in Progress | <p>Project-to-Date labor, materials, and equipment.</p> <p>After construction is completed, the total amount would normally be reclassified to the building asset type.</p> | <ul style="list-style-type: none"> - Purchase or constructed price -Insurance and interest during construction |

Acquiring and Disposing of Fixed Assets

General Rule Fixed assets are generally recorded at the purchase price amount plus incidental costs as noted in the previous section, **Description and Capitalized Costs**.

Acquiring Fixed Assets Refer to previous section, **Description and Capitalized Costs**.

Donated Assets Donated assets should be recorded at the fair market value on the date of donation.

Tagging Once assets have been purchased, they should be tagged or engraved with a label that indicates ownership and a sequential number assigned to it. (See example below).

Example:

| |
|--------------|
| Virginia CSB |
| 001 |

Disposing of Fixed Assets There are several ways to dispose of assets:

- By sale or trade-in
- By scrapping due to obsolescence
- Due to theft or other losses

Regardless of the method or reason for disposal, the asset should be removed from the accounting records at the total amount capitalized less applicable depreciation.

Fixed Asset Listings and Physical Inventories

Fixed Asset Listing A Fixed Asset Acquisition Listing is a report showing the detail of all assets acquired. The type of software used will normally dictate the particular content and arrangement of a listing. This listing should be stored in a fireproof safe. A Fixed Asset Disposal Listing provides disposal information for assets no longer in possession of the CSB. See examples below.

| Fixed Asset Acquisition Listing for Virginia CSB | | | | | | |
|---|----------------------|----------|-----------|---------------|----------------------|------------------|
| Class Code (Asset Type) | Property Description | Location | Custodian | Serial Number | Inventory Tag Number | Acquisition Date |

| | | | | | | |
|--|-------------------------|----------------|--------------------|----------|-----------------------|--------------|
| 4000 | Executive Desk | Exec's Office | Exec. Sec. | 1234567B | 0001 | July 1, 2002 |
| Fixed Asset Disposal Listing for Virginia CSB | | | | | | |
| Disposal Date | Disposition Sales Price | Funding Source | % Federally Funded | Cost | Check #/ PO Number | |
| | | State | 0% | \$650.00 | 23540 | |

Class Code

A chart of accounts should be designed for class codes that indicate the code number and description.

Example :

- 1000 Land
- 2000 Buildings
- 3000 Other Improvements
- 4000 Equipment
- 5000 Construction in Progress

These codes could be expanded to include more specific information such as whether property was purchased with federal or state funds, and more descriptive information.

Example:

- 4100 Federal Equipment
- 4110 Federal Furniture
- 4120 Federal Computers
- 4200 State Equipment
- 4210 State Furniture

Conducting Physical Inventories

Physical inventories of fixed assets should be conducted annually or every two years if the volume of fixed asset purchases is small. Proper planning and advance preparation can ensure an efficient inventory. Consider the following:

- Select a cut-off date for fixed asset purchases
- Ensure that the fixed asset listing has been updated as of the cut-off date.
- Prepare a written plan to conduct the inventory and notify personnel.
- Taking the inventory is a detailed process. Using an updated fixed asset listing, go to each location and perform the following:

- Check-off items noted on the listing.
- Make a list of items not appearing on the listing and investigate.
- Investigate any items on the listing that are not physically located.
- Prepare an updated listing and summarize the results of the inventory and any suggestions for improvement or follow-up.

Note: The use of colored stickers or inventory tags to indicate that an item has been inventoried is good to avoid errors in taking the inventory.

Purpose of Inventory

The fixed asset inventory is useful in verifying the following:

- Existence of asset
- Current condition
- Utilization
- Continued need for the property

Federal Requirements

Introduction

Federal requirements for fixed assets are contained in numerous federal publications. This section summarizes some of the more important requirements. A listing of federal publications is contained later in this section. CSB fiscal directors should be familiar with the federal publications and individual grant requirements surrounding fixed assets.

Unallowable Costs

CSBs are **not** permitted to expend federal grants for the following:

- Improvement of land
- Purchase, construct or permanently improve any building or other facility (other than minor remodeling)
- Purchase major medical equipment

Title to Assets

Title to equipment acquired under a grant or sub-grant will vest upon acquisition in the name of the grantee or sub-grantee (CSBs and their contractual agencies).

Use of Assets

Equipment shall be used in the program for which it was acquired. When no longer needed for the original program, the equipment may be used in other programs.

Replacement Equipment

When acquiring replacement equipment, the CSB may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

Disposal of Equipment

The following decision table explains when to dispose of items of equipment.

| When... | And... | Then... |
|--|--|--|
| items of equipment are no longer needed. | fair market value is less than \$5,000. | retain or sell with no further obligation. |
| items of equipment are no longer needed. | fair market value is in excess of \$5,000. | awarding agency has right to its percentage of the proceeds. |

Federal Publications

CSB fiscal officers may consult the following federal publications for further information and guidance concerning the management of fixed assets purchased with federal funds. Refer to the table below.

| OMB Circular # | Title |
|------------------------|--|
| A-87 | Cost Principles for State and Local Governments |
| A-102 (Common Rule) | Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (March 11, 1988 update) |
| A-110 | Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations |
| A-133 | Audits of Institutions of Higher Education and Other Non-Profit Institutions |

Capital Lease Determinations**Introduction**

This section describes accounting for capital leases. NCGA Statement #5 and FASB Statement #13 provide guidance for capital leases.

Criteria for Capital Leases

NCGA-5 requires that a lease agreement that satisfies the criteria established by FASB-13 be capitalized. FASB-13 states that noncancelable leases that meet any one of the following criteria must be capitalized (NCGA-5, par. 12):

1. The lease transfers ownership of the property to the lessee by the

end of the lease term.

2. The lease contains a bargain purchase option.
3. The lease term is equal to 75% or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property.

A bargain purchase option exists when the lessee can exercise a provision in the lease and buy the property sometime during the term of the lease at an amount substantially less than the estimated fair value of the property.

Lease payments include the minimum rental payments based on the term of the lease, excluding executory costs, such as payments for insurance and property taxes.

When determining the present value of the lease payments, the lessee should use its incremental borrowing rate. However, the lessee should use the lessor's implicit interest rate to determine the present value of the lease payments.

Recording Leases

Recording Capital Leases

When lease agreements are capitalized, the property rights acquired under the lease are reported in the General Fixed Assets Account Group, unless an Enterprise Fund, Internal Service Fund, or Nonexpendable Trust Fund acquires the property. Assume, for example, that equipment is leased for a five-year period, which is the economic life of the equipment. The lease is signed on June 30, 20XX, and beginning on this date, five annual payments of \$50,000 will be made. The incremental borrowing rate, and the lessor's implicit rate is 10%, and the fair value of the property is \$208,493 at the inception of the lease. The present value of the minimum lease payments is also \$208,493, as shown in the following illustration:

| | |
|--|------------------|
| Annual lease payments | \$50,000 |
| Present value of an annuity due (interest rate is 10% and the number of periods is five) | <u>X4.16986</u> |
| Present value of minimum lease payments | <u>\$208,493</u> |

GENERAL FIXED ASSETS ACCOUNT GROUP

| | | |
|--|---------|---------|
| Assets Under Capital Leases | 208,493 | |
| Investments In General Fixed Assets-Capital Leases | | 208,493 |

GENERAL LONG-TERM DEBT ACCOUNT GROUP

| | | |
|--|---------|---------|
| Amount To Be Provided for Lease Payments | 208,493 | |
| Obligations Under Capital Lease Agreements | | 208,493 |

| | | |
|---|--------|--------|
| Obligation Under Capital Lease Agreements | 50,000 | |
| Amount To Be Provided For Lease Payments | | 50,000 |

GENERAL FUND

| | | |
|--|---------|---------|
| Expenditures – Capital Leases | 208,493 | |
| Other Financing Sources-Capital Leases | | 208,493 |

| | | |
|--|--------|--------|
| Expenditures – Capital Lease Principal Payment | 50,000 | |
| Cash (Vouchers Payable) | | 50,000 |

In subsequent periods, the lease payments are recorded as expenditures of the fund that makes the lease payments. If the expenditure is recorded by object class (as described in NCGA-1[Governmental Accounting and Financial Reporting Principles], page 17/paragraph116), an amortization schedule must be prepared to distinguish the principal and interest portions of the lease payments. An amortization schedule based on the example discussed above is presented in the following illustration.

| Amortization Schedule | | | | |
|------------------------------|---------------|-----------------------|-----------------------|--------------------------------|
| Date | Lease Payment | Interest Expense @10% | Principal Expenditure | Amt. of General Long-term Debt |
| 6/30/X1 | -0- | -0- | -0- | \$208,493 |
| 6/30/X1 | \$50,000 | -0- | \$50,000 | 158,493 |
| 6/30/X2 | 50,000 | \$15,849 | 34,151 | 124,342 |
| 6/30/X3 | 50,000 | 12,434 | 37,566 | 86,776 |
| 6/30/X4 | 50,000 | 8,678 | 41,322 | 45,454 |
| 6/30/X5 | 50,000 | 4,546 | 45,454 | -0- |

The second lease payment (6/30/X2) would be recorded in the following manner:

GENERAL LONG-TERM DEBT ACCOUNT GROUP

| | | |
|---------------------------------|--------|--------|
| Obligations Under Capital Lease | | |
| Agreements | 34,151 | |
| Amount To Be Provided For Lease | | |
| Payments | | 34,151 |

GENERAL FUND

| | | |
|---------------------------------------|--------|--------|
| Expenditures – Capital Lease | | |
| Principal Payments | 34,151 | |
| Expenditures – Capital Lease Interest | | |
| Payments | 15,849 | |
| Cash (Vouchers Payable) | | 50,000 |

Depreciation

NCGA-1 precludes the recognition of depreciation as an expense in a governmental fund because depreciation is neither a source nor a use of financial resources of the governmental unit. Accumulated depreciation may be recognized in the General Fixed Assets Account Group, but the recognition of depreciation is strictly optional (NCGA-1, par. 54).

Chapter 8: Cash Management

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Cash Management

| | |
|-----------------------------------|--|
| Introduction | This chapter contains various cash management standards that have previously been established by the Department plus some other standards that have been initiated from audit findings, questions from CSBs, or sound business practices. |
| Cash Management Definition | <p>The term "cash management," is defined as a function of financial management that has as its overall objective the effective utilization of all scarce resources for the achievement of organizational goals.</p> <p>Accordingly, cash management is the forecasting of cash positions and controlling receipts, disbursements, and cash balances so as to optimize overall interest or investment income.</p> |
| Investments | <p>CSBs are allowed to invest in the following:</p> <ul style="list-style-type: none"> ▪ Obligations of the United States or agencies thereof. ▪ Obligations of the Commonwealth of Virginia or political subdivisions thereof. ▪ Obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank. ▪ Commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record. ▪ Banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). |
| Interest Expense | Interest expense is the charge for the use of borrowed money. Interest expense is commonly found when one purchases a good or service over a period of time and finances it. The Department will allow for interest expense as a normal expenditure of a program whether it is directly operated or contractually operated. |
| Loans | Community services boards can apply for and accept loans as authorized by the governing body or bodies of the political subdivision or subdivisions of which it is an agency, <i>Code of Virginia Sec. 37.1-197(K)</i> . However, the proceeds from these loans must be for goods and services related to the activity (ies) of the programs of the community services boards. |
| Prepayments | Prepaying expenditures due in the following fiscal year with excess current fiscal year revenues is not acceptable unless the CSB is paying a business expense that carries over from year to year, i.e., insurance or subscriptions. |

**Local
Government
Investment
Pool**

The Commonwealth of Virginia Local Government Investment Pool (LGIP) is a diversified portfolio managed by the Cash Management and Investments Division of the Commonwealth Department of the Treasury. The LGIP is administered for the benefit of local governments and other public entities of the Commonwealth. The LGIP is managed in a manner consistent with the “2a7-like pool” requirements of Statement No. 31 of the Governmental Accounting Standards Board. This Statement outlines accounting and financial reporting standards for governmental investment pools. The Statement defines the risk limiting requirements necessary to qualify as a “2a7-like pool,” thus permitting share price valuation using a constant \$1.00 net asset value, e.g., amortized cost valuation. Registered money market funds are permitted to use amortized cost valuation if they are managed in accordance with Rule 2a of the Securities and Exchange Commission.

**LGIP
Application**

An application to participate in the Local Government Investment pool (LGIP) can be downloaded from the Commonwealth of Virginia Department of Treasury website at www.trs.state.va.us.

**Chapter 9:
Audit Requirements for CSBs
and
CSB Contract Agencies**

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Audit Requirement for CSBs And Contract Agencies

Introduction This chapter provides guidance for CSBs, CSB Contract Agencies, and auditors in reference to auditing and audit related topics. Federal and state audit reporting guidelines and requirements as they relate to CSBs and CSB Contract Agencies will be covered.

Independent Audit Reporting Requirements

Audit Report Due Dates The table below summarizes audit reporting due dates for fiscal years ending June 30 for CSBs and CSB Contract Agencies. There are audit-reporting requirements that are specifically stated in the Code of Virginia and others that are requested by the Department.

| Description | APA Due Date | DMHMR Due Date | Fed. Due Date |
|--|--------------|----------------|---------------|
| Audit Reports: CSBs | Oct. 1* | Nov. 30 | Note 1 |
| Audit Reports: Local Government CSBs (Note 2) | Nov. 30 | Nov. 30 | Note 1 |
| Audit Reports: CSB Contract Agencies | N/A | Nov. 30 | Note 1 |
| Audit Reports: CSB Related Organizations | N/A | Nov. 30 | Note 1 |
| APA Form 110 | Nov. 30 | N/A | Note 1 |
| Management letters and other reports issued by the auditor | ----- | Nov. 30 | |
| Plans of Correction to all auditor findings and communications | ----- | Nov. 30 | |

* Although the October 1 due date is required by statute, the APA has agreed not to penalize CSBs that submit their audit reports by November 30. CSBs are encouraged to submit documents earlier than the DMHMRSAS deadlines noted above.

Note 1: Where total federal expenditures exceed \$300,000, submit two (2) copies of the reporting package. For fiscal years ending June 30, the due date is March 31 of the next fiscal year (9 months after year-end) or 30 days after receipt of the audit report whichever is earlier.

Note 2 Single jurisdiction CSBs are not responsible for APA audit report submissions.

| | | | | | | | |
|---|---|--|--|---|--|---|---|
| Management Letters | Management letters offer valuable suggestions for improvement in financial management and internal controls to a CSB or Contract Agency. Executive Directors should request that auditors provide a management letter with each audit. | | | | | | |
| Plans of Correction | The Executive Director should prepare Plans of Correction to auditor findings and other communications, such as management letters and reports on internal control. The plans should be addressed to the auditor with a copy to DMHMRSAS. | | | | | | |
| CSB Related Organization Audit Reports | <p>All CSB related organization audit reports should be submitted to DMHMRSAS for review.</p> <p>Definition: A CSB related organization is any organization or company that the CSB formed for purposes such as holding real estate, acquiring debt, or fund raising. These organizations are not component units by definition. DMHMRSAS is requesting copies of all non-component unit related organization audits.</p> | | | | | | |
| Where To Send Reports | <p>The reports noted above should be sent to the following addresses with The number of copies as indicated.</p> <table><tr><td><p><u>APA (1Copy):</u> Auditor of Public Accounts Local Government Manager James Monroe Building, 8th Floor P.O. Box 1295 Richmond, VA 23214-1295</p></td><td><p><u>DMHMRSAS (2 Copies):</u> Dept. of MH, MR, and SA Services Division of Financial Administration Kenneth M. Gunn, Jr., Director P.O. Box 1797 Richmond, VA 23218-1797</p></td></tr><tr><td><p><u>Federal Govt. (2 Copies):</u> Federal Audit Clearinghouse Bureau of the Census 1201 East 10th Street Jeffersonville, IN 47132</p></td><td><p><u>Local Governments (1 Copy):</u> Operating CSBs should send 1 copy of their audit report to each local government that funds the CSB.</p></td></tr></table> | | | <p><u>APA (1Copy):</u> Auditor of Public Accounts Local Government Manager James Monroe Building, 8th Floor P.O. Box 1295 Richmond, VA 23214-1295</p> | <p><u>DMHMRSAS (2 Copies):</u> Dept. of MH, MR, and SA Services Division of Financial Administration Kenneth M. Gunn, Jr., Director P.O. Box 1797 Richmond, VA 23218-1797</p> | <p><u>Federal Govt. (2 Copies):</u> Federal Audit Clearinghouse Bureau of the Census 1201 East 10th Street Jeffersonville, IN 47132</p> | <p><u>Local Governments (1 Copy):</u> Operating CSBs should send 1 copy of their audit report to each local government that funds the CSB.</p> |
| <p><u>APA (1Copy):</u> Auditor of Public Accounts Local Government Manager James Monroe Building, 8th Floor P.O. Box 1295 Richmond, VA 23214-1295</p> | <p><u>DMHMRSAS (2 Copies):</u> Dept. of MH, MR, and SA Services Division of Financial Administration Kenneth M. Gunn, Jr., Director P.O. Box 1797 Richmond, VA 23218-1797</p> | | | | | | |
| <p><u>Federal Govt. (2 Copies):</u> Federal Audit Clearinghouse Bureau of the Census 1201 East 10th Street Jeffersonville, IN 47132</p> | <p><u>Local Governments (1 Copy):</u> Operating CSBs should send 1 copy of their audit report to each local government that funds the CSB.</p> | | | | | | |
| References | <p>The references and auditing standards as noted below should be followed by the auditor when conducting an audit.</p> <ul style="list-style-type: none">▪ Generally Accepted Auditing Standards (GAAS)▪ Governmental Auditing Standards (GAS) also known as the "Yellow Book":<ol style="list-style-type: none">1. Single audit Standards2. OMB Circular A-133 | | | | | | |

3. Compliance Supplements

- Virginia Auditor of Public Accounts (APA):
 1. Specifications for Audits of Authorities, Boards and Commissions (useful for multi-jurisdiction CSBs)
 2. Specifications for Audits of Counties, Cities, and Towns (useful for both single and multi-jurisdiction CSBs)
- Virginia Department of MH MR SAS (DMHMRSAS):
 1. Request for Proposals for CSB Audit Contracts (useful for multi-jurisdiction CSBs)

OMB Circular A-133: Audits of States, Local Governments and Non-Profit Organizations

Introduction and Background

OMB Circular A-133 was revised in June 1997 to provide that non-federal entities that expend \$300,000 or more in a year in federal awards shall have an audit conducted for that year in accordance with the provisions of this circular. The federal due date is the earlier of nine months after fiscal year-end or 30 days after receipt of the audit report.

This section discusses audit-reporting requirements per AICPA SOP 98-3, *Audits of States, Local Governments, and Non-Profit Organizations Receiving Federal Awards* (i.e., OMB Circular A-133).

A-133 Reporting Package

The A-133 Reporting Package consists of the following:

1. Financial statements and Auditors' Reports,
2. Schedule of Expenditures of Federal Awards,
3. Summary Schedule of Prior Audit Findings,
4. Corrective Action Plan, and
5. Data Collection Form (must be signed by the CSB or CSB Contract Agency). This form represents a summary of the reporting package. The auditor completes certain sections and also signs the form, which is available on the OMB website at **www.whitehouse.gov/omb**.

Overall Auditor Reports

Audit reports should contain the following:

1. Independent Auditors' Report (opinion on financial statements and schedule of expenditures of federal awards).
2. Report on Internal control (related to financial statements and related to major programs).
3. Report on Compliance with laws, regulations, contracts, and

grants.

4. Schedule of Expenditures of Federal Awards as noted below.

| Virginia CSB Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2001 | | | |
|--|--------|---|-------------------------|
| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA | Pass Through Entity ID# (if applicable) | Federal Expenditures |
| US Dept. of HHS: VA DMHMRSAS: Mental Health Block Grant | 93.958 | N/A | \$357,000 |
| Total US Dept. of HHS | | | \$357,000 |
| Total Expenditures of Federal Awards | | | \$357,000 |

5. Schedule of Findings and Questioned Costs (should include 3 sections:

- a) Summary of auditors' results,
- b) Findings related to financial statements, and
- c) Findings and questioned costs for federal awards.

6. Summary Schedule of Prior Audit Findings (include status of prior audit findings, if any, and reference number, SFQC).

7. The CSB or Contract Agency is required to prepare a Corrective Action Plan for each of the current year's findings. Some organizations include the Corrective Action Plan with the Schedule of Findings and Questioned Costs.

**Address: A-133
Reporting
Package**

Federal Audit Clearinghouse, Bureau of Census
1201 E. 10th Street
Jefferson, IN 47132

Additional Disclosures Requested From Auditors

Introduction

Additional disclosures are requested from auditors for inclusion in annual audit reports. These disclosures are requested to assist the Auditor of Public Accounts and the DMHMRSAS Office of Financial Reporting and Compliance in their analyses. Multi-jurisdiction CSBs should ensure that their auditors are aware of these requests. This section does not apply to single jurisdiction CSBs and contract agencies.

**Comparative
Presentation**

Comparative presentations of the current and previous fiscal year should be made for:

- Balance Sheet,

- Statement of Operations and Changes in Fund Balance, and
- Statement of Cash Flows.

Note: Similar titles as shown above for the financial statements should be used.

Client Funds Client funds held by the CSB should be recorded on the CSB's general ledger and reported in the financial statements. A note disclosure should be made as well.

Client Loans Temporary loans to clients should be recorded on the CSB's general ledger and presented as a receivable in the financial statements.

Interest Interest earnings should be separately presented. Do not include in other or miscellaneous income.

Local Funding The APA requests that local tax revenues be detailed by locality, not simply in total. See the example below.

Example: Hampton-Newport News CSB

Local Tax Revenues:

City of Hampton \$50,000

City of Newport News 75,000

Total Tax Revenues \$125,000

Status of Prior Year Findings Audit reports should contain such a report if the prior year audit had reportable conditions or instances of non-compliance.

Schedule of Findings and Questioned Costs A Schedule of Findings and Questioned Costs should be included in the audit report that details federal catalog number, problems, auditor's recommendations, and questioned costs. If none, the Schedule should so state.

Reconciliation Schedules Audit reports should contain reconciliation schedules that reconcile audited revenues and expenditures with DMHMRSAS's 4th Quarter Report. See Example below.

| Description | MH | MR | SAS | Admin | Other | Total |
|--------------------------------|----|----|-----|-------|-------|-------|
| Per 4 th Qtr Report | | | | | | |
| Accruals (List) | | | | | | |
| Per Audit Report | | | | | | |

Notes:

1. Three (3) separate reconciliations are needed: Total Revenues, Total

Expenditures, and Federal Revenue.

2. Reconcile governmental funds only (exclude proprietary funds) if using the governmental model of financial reporting.
3. Indicate the date and version of the 4th quarter report used.

Schedule of Insurance

A Schedule of Insurance should be presented. The schedule should contain the information as indicated below.

| Agent's Name | Coverage Desc. | Policy Number | Period Covered | Limits of Liab. | Deductible Amount | Premium Amount |
|--------------|----------------|---------------|----------------|-----------------|-------------------|----------------|
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |

Revised Reports

When auditors uncover errors that affect previously submitted final quarterly fiscal reports, it is the responsibility of the CSB to promptly submit revised reports.

Publication Requirement (Summary Statement)

Section 2.1-164 of the *Code of Virginia* requires the publication of a summary statement of financial condition for multi-jurisdiction CSBs (applies to operating boards only).

The summary should be published in a newspaper of general circulation in localities that a CSB serves. This statement should be published at the time the audit report is issued. The following example should suffice to meet the code requirement.

| Name of CSB Summary Statement of Financial Condition As of June 30, 200X | |
|--|----------|
| Total Assets | \$ _____ |
| Liabilities | _____ |
| Fund Balance | _____ |
| Total Liabilities & Fund Balance | _____ |
| Revenues | _____ |
| Expenditures | _____ |
| Other Sources or Uses | _____ |
| Net Change in Fund Balance | \$ _____ |
| Detailed financial statements are available for inspection at: <div style="margin-left: 40px;"> 1. Name of CSB 2. Address </div> | |

Independent Audit Requirements for Contract Agencies

| | |
|-------------------------------------|---|
| Audit Reporting Requirements | CSB contract agencies (sub-recipients) are required to submit audited financial statements annually to DMHMRSAS. A-133 audits may have to be performed depending on the level of federal funding. Refer to Chapter 10 for additional information. |
| Other Specific Guidelines | <p>The AICPA Accounting and Audit Guides specify the following (as noted in Chapter 5, Accounting Standards):</p> <ol style="list-style-type: none"> 1. If over 50% of revenue sources are from private sources, use "Audits of Voluntary Health and Welfare Organizations". 2. If less than 50% of revenues are from private sources, use "Audits of Certain Non-Profit Entities". |

Additional Disclosures - CSB Contract Agencies

| | |
|--|--|
| Introduction | Additional disclosures are requested for inclusion in the annual audit report for CSB Contract Agencies. Refer to the headings below. |
| Funding Sources | <p>The financial statements or notes should disclose the source of funding, in particular, from:</p> <ol style="list-style-type: none"> 1. CSBs, if several CSBs fund the organization. 2. Federal grant funding (The organization should identify any federal funding that is passed through indirectly from the state, or that is received from the federal government). |
| Notes | <p>The notes should be comprehensive in scope and provide useful information to the reader. This information should include but is not limited to:</p> <ol style="list-style-type: none"> 1. Reporting entity – a description of the mission, nature of the entity, and services provided. 2. Basis of accounting (normally accrual basis). 3. Other notes necessary for GAAP presentation. |
| Schedule of Findings and Questioned Costs | A Schedule of Findings and Questioned Costs should be included in the audit report which appropriately details federal catalog numbers, problems, auditor's recommendations, and questioned costs. |
| Presentation | <p>In addition to adhering to GAAP, the audit report presentation may be improved by:</p> <ol style="list-style-type: none"> 1. Presenting it in a spiral bound report. 2. Including a table of contents and page numbers. 3. Designing pages to be read in a portrait orientation like a book. |

Chapter 10:
CSB Contract Agencies

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Contract Agencies

Introduction This section contains financial management and administrative requirements applicable to contract agencies that provide mental health, mental retardation, or substance abuse services through contractual arrangements with community services boards.

Accountability

Compliance per Performance Contract Contract agencies will comply with the applicable provisions of the Performance Contract negotiated by the Department and CSB. These provisions include the asterisked elements in Exhibit B of the Performance Contract.

Definitions

Contract Agency **CSB Contract Agencies** are generally private not-for-profit entities that provide services to a CSB usually through a grant or shared-cost arrangement involving significant amounts of resources and services. A contractual relationship may also be established with an agency of local government.

Example: The Children's Center (Contract Agency for Western Tidewater CSB)

Purchase of Service (POS) Contracts are contracts with individuals or organizations for the provision of specific services to a CSB, involving limited amounts of resources and services.

Example: An individual psychiatrist rendering service on a contractual basis. Also, an MR client may be rendered services on a POS contract in a group home or sheltered workshop.

Non-example: CSB employees rendering services to clients.

Financial Management

Principles for Determining Costs Contract agencies will comply with principles for determining costs in calculating, negotiating, budgeting and reporting the costs of contractual services.

Standards of Financial Management The financial management systems of contract agencies must meet the following standards:

Financial Reporting: Accurate, current, and complete disclosure of the results of financially assisted activities must be made in accordance with the financial reporting requirements of the contract between the agency and the CSB.

Accounting Records: Contract agencies must maintain records that adequately identify the source and application of funds provided for financially assisted activities.

Internal Control: Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Contract agencies must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Budget Control: Actual expenditures or outlays must be compared with budgeted amounts for each grant or sub-grant.

Allowable Cost: Applicable cost principles, agency regulations, and the terms of contractual agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

Source Documentation: Accounting records must be supported by appropriate source documentation.

Cash Management: CSBs must time advances of federal funds to their sub-grantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the CSBs.

Administrative Requirements

| | |
|------------------------------|--|
| Introduction | This section contains administrative requirements applicable to all contract agencies that receive state generated and federal block grant funds from community services boards. Contract agencies that are funded only with local funds would not be subject to these requirements. |
| Bonding and Insurance | <p>The contract agency is expected to take reasonable precautions to protect itself against losses. This includes the following:</p> <ul style="list-style-type: none">▪ Appropriate bonding▪ Officer's Liability Insurance▪ Professional Staff Liability Insurance▪ Comprehensive Loss Insurance▪ Fire and Theft Insurance▪ Automobile Insurance |

- Other appropriate insurance

**Record
Retention**

The contract agency must retain all financial records for three years after audit. Additional information in reference to record retention can be obtained from the Library of Virginia's website at www.lva.va.us.

**Agency's
Income**

All revenue generated or received by the contract agency for the services in its contract with the CSB must be used for the agency. These revenues, applicable to programs provided for the CSB, should be included on the revenue portion of the required reports. Sources which are not listed on the reports should be included on the respective "other" lines with a description of source.

**Financial
Reporting**

The contract agency should send the CSB the information about the services in its contract with the CSB necessary to complete the quarterly CSB Performance Report in time to meet the reporting deadlines specified in Exhibit C of the Performance Contract. This information should include the following:

- Category or sub-category of core services provided
- Units of service provided
- Number of clients served
- Static capacity
- Client characteristics
- Revenues
- Expenditures

**Grant
Closeout
Procedures**

When it is anticipated that the CSB's agreement with the contract agency is to be terminated, the following procedures must occur, regarding the services in the agency's contract with the CSB:

1. Prepare an estimate of expenditures to be incurred after termination date or after current contract period.
2. Submit the listing to the CSB two months in advance of termination.
3. Submit to the CSB a request for close out funding if necessary or extension of the contract period.
4. Inventory all equipment acquired under contract.
5. Report the results of the inventory to the CSB and request disposition instructions.
6. Submit final financial report.

Procurement Standards Please refer to *CSB Procurement Procedures Manual* published by DMHMRSAS.

Audit Standards Please refer to Chapter 9 of this guide for applicable audit requirements.

Chapter 11:
Tax Considerations

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Chapter 12:
Cost Savings Opportunities

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Web Site References

American Institute of Certified Public Accountants: www.aicpa.org

Association of Government Accountants: www.agacgfm.org

Auditor of Public Accounts: www.apa.state.va.us (804) 225-3350

CSB Procurement Procedures Manual: www.dmhmrzas.state.va.us/csb (804) 786-4512

Department of Treasury – Virginia: www.trs.state.va.us (804) 225-2142

DMHMRSAS: www.dmhmrzas.state.va.us

General Accounting Office: www.gao.gov

Government Finance Officers Association: www.gfoa.org

Internal Revenue Service: www.irs.ustreas.gov

Library of Virginia: www.lva.va.us

Office of Management and Budget – United States: www.whitehouse.gov/omb/

Records Retention: <http://www.lva.lib.va.us/state/records/schedule/local-gs.htm>

Technical Bulletins: <http://www.dmhmrzas.state.va.us/Financial Planning/OFRCPub.htm>

Unclaimed Property Division (UCP) of the Virginia Dept. of Treasury Mail Office:
ucpmail@trs.state.va.us

Unclaimed Property: <http://www.trs.state.va.us/UCP/ucp.html>

Virginia Society of Certified Public Accountants: www.vscpa.com

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